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How to save thousands on student loans

Loan rates expected to climb a record 2 percentage points come July. So it may pay to consolidate.

By Jeanne Sahadi, CNNMoney.com senior writer

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NEW YORK (CNNMoney.com) - If you've borrowed money from Uncle Sam to finance your education or your child's, you might be able to save yourself thousands of dollars.

The trick: consolidating your federally guaranteed, variable-rate loans between now and June 30.

Here's why: your payments will be going up on July 1 due to an increase in loan rates. Those rates are reset every year based on what the 3-month Treasury yield is at the end of May.

Since this time last year, that yield has risen nearly 2 percentage points. And it may not go down much between now and May 30, even with the recent bond market rally.

Hence, the repayment rate on the federal loans for students known as Stafford loans is expected to jump to about 7.3 percent from 5.3 percent currently.

If you start repaying your loans while you're still in school or up to six months after graduation, known as the grace period, you get a lower rate. That rate is seen rising to about 6.7 percent from 4.7 percent.

Meanwhile, the rate on student loans for parents, known as PLUS loans, is likely to rise to roughly 8.1 percent from 6.1 percent.

If rates do rise 2 points, that will be the biggest one-year hike in the history of the federal loan program, said Mark Kantrowitz, founder of FinAid.org and author of the upcoming book "College Gold."

How much you could save

When you consolidate, you roll all your loans into one and lock in a single rate on the money you owe.

If you consolidate your loans now, you can get a rate of 5.375 percent for regular student loan repayment, and 4.75 percent if you're still in school or in the grace period. That applies to Stafford loans obtained after June 1998.

Come July 1, those rates are likely to jump to about 7.375 percent and 6.75 percent, respectively.

For PLUS loans, the consolidated rate, currently 6.125 percent, is expected to rise to 8.125 percent in July.

Here's what that means in dollars:

- Say you have \$20,000 in 10-year variable rate Stafford or PLUS loans. If you consolidate before July 1, you could save \$20 a month in payments or between \$2,400 and \$2,500 in interest over the life of your loan
- If you have \$100,000 in loans, as many medical students do, multiply those savings by 5. You'd save \$100 a month, or just over \$12,000 in interest over the life of the loan

Act before June 30

By law, you're only permitted to consolidate your student loans once. So if you've done so before, you're out of the running.

But if you haven't, Kantrowitz said, here are a few things to keep in mind:

- You must consolidate by June 30 to get the best rates
- You may consolidate to get a better rate even if you just have one loan
- If all your loans are from one lender, you must consolidate with that lender
- If you have loans from more than one lender, ask your school's financial aid office which lenders offer the best consolidation deals in terms of discounts and customer service

Opt for a lender that offers to knock at least a quarter point off your consolidated rate if you agree to electronically transfer your payments. This type of short-term incentive is better than one that takes a few years to satisfy - for example, a discount if you make 36 consecutive on-time payments, something that's typically difficult for most new graduates.

- When you consolidate, don't include any Perkins loans you may have. It's already a fixed-rate loan, so there's no benefit from consolidating it and you may, in fact, lose some of the benefits such as certain loan forgiveness provisions
- If you're married and both you and your spouse have student loans, don't consolidate them into one loan. If you divorce, you'll both be on the hook for repayment of the full amount. If your split is acrimonious and one of you reneges on your half of the bill, the other person will be held accountable.

To see how much money you can save by consolidating, use [FinAid.org's loan consolidation calculator](#).

[Student loans: A life sentence](#)

[Cap, check. Gown, check. Job, no prob.](#)

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